

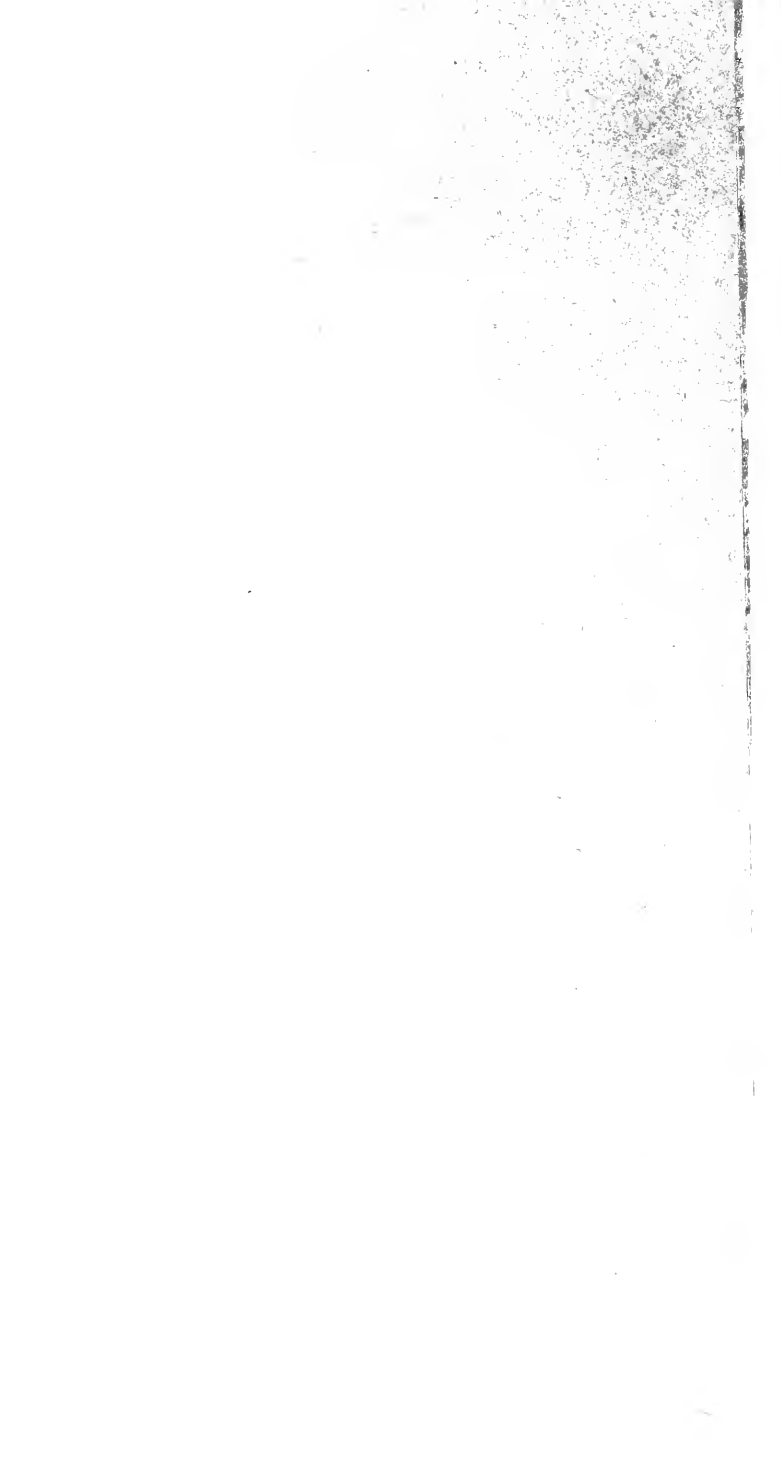
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Observations on the national
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OBSERVATIONS
ON THE
NATIONAL DEBT,
AND
An Enquiry
INTO
ITS REAL CONNECTION
WITH
The General Prosperity.

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OBSERVATIONS, &c.

THE following observations on the national debt would not have been supposed deserving the public attention, but for the express purpose of submitting to consideration the important influence which the capital, vested by foreigners, has in promoting the prosperity of the country.

It is acknowledged to be a very discouraging period to enter into a detail of the causes of our past welfare;—for the excessive increase of the debt, in the last three or four years, affords too much reason for the most confident to hesitate—whether a fortunate concurrence of similar circumstances can be equally effectual to enable the country to support the accumulated weight and pressure of the enormous debt and taxes already incurred, or to be provided for?

To discuss a subject immediately issuing out of the management of our public concerns without including some political observations, has been

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found quite impracticable, from their connection with each other; yet to give offence by unnecessarily or intemperately dilating upon such observations has been studiously avoided.

That the funding system which this country has pursued, has not long since involved it in utter ruin, has been matter of universal astonishment; that the flourishing state of the country, previous to the present war, should have presented a scene of splendor far surpassing all our former greatness, considering the enormous expenditure of the American contest, would be absolutely incredible, were it not confirmed by experience.

Various have been the opinions to connect causes and effects so opposite, and unlikely to produce each other; and numerous speculations have been hazarded from the commencement of the funded debt, to account for a phenomenon so unnatural as—that the deeper a country plunges into debt, and the more it is burthened with taxes, it should continue more quickly to resume its former prosperity, and that very welfare keep pace with its incumbrances.

Few have chosen entirely to deny the past general prosperity, while many have seemed presumptuously to conclude, that because the public credit

credit and resources have hitherto vastly exceeded the apprehensions of our predecessors, and that their gloomy suggestions were not fulfilled, that, therefore, the national debt and taxes may go on to any mad extent, and still be succeeded with a similar return of increasing prosperity.

It may be all-sufficient, to expose the folly or infatuation of such conclusions, to remark, that though the ruin has been deferred beyond the reach of their apprehensions, every war makes the causes of danger more and more operative; and from the many recent events which have arisen in other countries, and in our own, who will be bold enough to say, that a system, depending for its support upon all the possible exertions of commerce, ought to be pushed to its utmost extremity?

General Description of the National Funds.

The national debt consists of vast sums borrowed by government of the public, to defray the ordinary and extraordinary expences of the state. The loans, raised during a war, are immediately applied to pay those debts which government have previously contracted, to supply the army, the navy, and all the other numerous public exigencies. It follows, that except the money

which is sent abroad for foreign subsidies, services, or naval stores,* most of it does in the spending return in one shape or another into immediate circulation, and it is this fictitious trade, produced by the war, which makes the people insensible to the burthen they are taking upon their shoulders, and under which they must ever after crouch.

The national debt is essentially different from all private obligations, which contain a security for the payment of the principal as well as the interest; but the *government subscriber* contracts only for an annuity in lieu of his principal, and seeks the reinstatement of the capital by selling the annuity he stands entitled to under the denomination of stock; consequently, the value of £.100 in the three, four, or five per cents. will as much depend upon the interest the minister offers, as it is governed by the rate of interest attached to it.

* This country has a powerful and just demand upon Russia, to give a preference to our manufactures, in return for our immense consumption of a produce which she could not dispose of any where else. Whether it is owing to an inattention on either sides, it continues to be a fact, that great part of the fluff manufactures are excluded, and much too heavy duties laid upon the rest.

It

It is the immediate province of the Chancellor of the Exchequer to treat with individuals, or the public, for such sums as the different services require, and to procure them on the best terms. These conditions usually become more disadvantageous with the expenditure and the continuance of war. The value of the funds must consequently determine the rate of interest and the quantity of stock which must be given for any particular loan. Suppose the three per cents. are at fifty, the lenders will for every £.100 advanced, demand at least £.200 stock, or a certain proportion distributed in the four or five per cents. sometimes with an annuity, so as to be fully equal in value to the increased produce of funded property.* The original contractors depending upon the advantage of their bargain, in general subscribe for much larger sums than they can provide, in the expectation that they can sell their scrip immediately, or between the different installments, with a premium. The declining value of the funds in a time of war, proceeds either from distrust, necessity, or the expectation of replacing them at a lower price, and from

* Every new loan causes a great scarcity of money, and is attended with serious difficulties to the commerce of the country by the withdrawing the capitals and contracting the accommodation and general credit.

these causes the market is supplied with more stock than there are purchasers, and these with the common casualties of war, occasion considerable fluctuations in all funded property.

These fluctuations neither add to, nor diminish from the money in circulation, because though the price of £.100 stock may vary from 96 to 46, or the seller who bought at 96 is compelled to sell at 46, the capital of the purchaser is benefited in the same proportion as the other is injured.

It is impossible to reflect upon the numerous losses of this kind to families and others, in a nation which from its riches, its commerce, or mistaken policy, is so frequently engaged in war, without urging the vast importance of *devising* some expedient to support the public credit, and *whereby* ~~whereby~~ to prevent the excessive fluctuation of funded property, which produces so much private calamity, interferes with the commerce, is attended with such an additional expence to the nation, and supports a spirit for speculation, and the most desperate gambling. At present a minister has it in his power to offer such terms every year, or upon every disaster, as he pleases, or the loan contractors choose to exact. These evils are so numerous, their influence so extensive, and of a magnitude which would not barely justify, but seem

seem to demand the strong interposition of the legislature, infinitely beyond many cases in which it has been exerted.

The legislature have permanently limited the rate of legal interest; yet few examples can be produced in which money has been hoarded on the pretence; but many are the instances in which it is lent with considerable risque to obtain five per cent. Would it not be as reasonable and proper to restrict the national interest in a time of war, though the risk is greater, by enacting certain positive limitations for the interest to be advanced only with the necessity to borrow, but never to exceed five per cent. and that no transfers should be valid, but what are made in some agreed proportion to the stock which is newly contracted for.*

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* The known difficulty of what can be proper and practicable would have prevented the suggesting any proposition; but from the hope thereby to fix the public attention, and produce some effectual regulation, one evident benefit would attend a restriction, that wars could not be protracted, nor would they be supported so long by loan contractors.

It may be objected, that the monied men would not be willing to advance sufficient sums under such restrictions. If, however, the war was indispensably necessary for the honor or for the promotion of our national commerce, there can be no doubt of
its

On the Foreign and Domestic Debt.

The whole national debt is usually included in this description. By the foreign debt is always meant that part of it which is owing to foreigners, and for which the nation pays them interest. The domestic is that which stands in the names, and the interest of which is received by ourselves.

The proportion of stock held by foreigners, has been generally computed at a fifth part; but since the revolutions upon the continent, and previously to this country's engaging in the war, it has been supposed to have been about one third, or nearly 80,000,000 of the debt funded before the war. Without presuming to expect that it will be in the power of foreigners to invest in proportion to the rapid and enormous expenditure of the present profuse war, perhaps it may not be unreasonable to suppose that from the emigrations of property to this country, the unsettled state of others, and from a restoration to credit and to peace, should such an event be near,

its being liberally supported; and so far as they operated to restrain all wars prejudicial to the general interest of the country, their tendency would be beneficial.

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that the foreign investments may be yet more considerable, and that this nation will not only enjoy the use of the capital, but the benefit of part of the interest being spent amongst us.

It is, principally, the hope of the continuance of the capital, which can encourage the country to encounter its burthens; and presents the most solid expectation of re-establishing its prosperity, by furnishing our commerce with money to extend our foreign trade, enlarging our home consumption, and thereby rendering reciprocal our commerce with other nations, and diminishing the weight of our taxes at home.

A more severe injury could scarcely be experienced, than that our commerce should be so reduced as to make a foreign capital unnecessary, or that foreigners should want to withdraw it.

The principal object for thus particularly stating the degree of debt, held by foreigners, is to correct a mistaken and prevalent prejudice, that the paying to them so considerable a portion of the interest of the national debt, constitutes its chief injury, supported by a false opinion, that the general prosperity is to be attributed wholly to the circulation of the interest amongst ourselves.

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To comprehend the just operation of the debt held by foreigners, it requires to be most particularly remembered, that all the sums lent by them are so much actual addition to our commercial capital, and although the nation parts with the interest upon it, it is of similar benefit as a capital borrowed by individuals to improve in their private trades, and may in this view be multiplied and increased to any supposable extent, which the nation can employ beyond what can be procured at home.

The taxes requisite to pay this part of the interest, are amply repaid by the increase of national credit, labor, and profit, which the employment of the capital furnishes—whereas that proportion of the interest which is paid to the public creditor, though equally as just an engagement, supplies no new or productive capital but that which is first collected from the labour, or individual capital of the community: yet this fancied benefit of its re-circulation has been by most, and by some later writers especially, held up as the source of our general prosperity.

By the foreign debt, a large productive capital is brought into the nation, and improved by commerce. By the domestic debt, a very large interest is drawn from the public without any capital.

On

*On the difference between individual Wealth, and
that which contributes to the general Prosperity.*

The nature of riches as well as taxes is to enhance the price of the most useful commodities, and gradually to reduce even its own value. But riches employed, (and they always must, to be productive) differ very widely from taxes, in that they provide labour for the support of the industrious and the ingenious,—whereas the taxes oppress them. The fortunes, therefore, which are raised in the manufactures, and from that part of the commerce which provides reciprocity for foreign nations, are the most useful. The introduction of a degree of luxury supports labour, and encourages the many arts which compose a very profitable part of the public employment.

Riches without manufactures or commerce, even in a country without taxes, would soon impoverish the middle classes, starve the poor, and become insupportable to the wealthy. It is, therefore, visionary to expect, that a people or government, already in debt, could subsist without an inequality of property sufficient to give stability to that credit and commerce.

But

But the fortunes amassed by individuals from government loans and contracts, though they make a difference in the distribution of the nation's property, and cause a local encrease to the circulation, and are often mistaken for additional riches, are no addition to the stock of the whole community: they, indeed, make the man, the richer; but all that is thus diffeminated, is only the fruit of the national labour, and extorted from its industry or property.

Though the whole commercial capital is in appearance decreased by the increase of the national debt, yet most of it is only diverted for a time by the different channels through which it passes again to the same point: for if government contracts debts with the manufacturers, artificers, &c. it borrows of a third party to pay off these debts; thus the greater portion of this money, taken from the commercial capital, goes at once to re-instate the capital of the said manufacturers. The same applies to the interest which is received for the sums advanced to government;—this interest is first collected from the many to pay the few, so that it is merely a change without an increase to the circulation. On the contrary, the money lent to government by foreigners diffuses general prosperity

prosperity, in spite of the interest which is paid for it out of the country. All they purchase into the funds, which are generally at a much higher price than is originally given to government for it, is so much addition to individual riches and the national wealth. Besides that, all the stock they hold, adds to its productive capital, enables the manufacturer and merchant to return the foreign capital in credit, by which means this country enriches itself by its employment, and is making compound interest of all which is thus borrowed*.

Commerce confessedly the support of the National Debt.

The constant boast of the prosperous state of our commerce, to cajole the country to persist in the most extravagant expenditure, amounts to a tacit acknowledgement, that we are in such a situation that the ^{future} ~~existence~~ of our credit hangs upon the ~~future~~ and precarious maintenance

* The vast importance of the foreign creditor and capital to the support of the national credit, and the enlargement of its commercial trade credit, ought to induce the utmost caution in raising any obstacles to the regular remittances of the interest; and it surely is a much preferable policy to contrive to obviate, by every possible means, those impediments which usually attend a state of hostility.

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and increase of our trade. While our commerce is so extensive as to require the aid of a foreign capital, it is of vast consequence to preserve it. In this view the excess of a national debt which would otherwise ruin a people, may be converted into an advantage to either a poor or an enterprising country. On the other hand, a nation which trusts* to an increasing trade, with a borrowed capital, made necessary by past extravagancies, must be in condition of great jeopardy, and every measure which wounds its credit, must affect its commerce, and though the effect of the Bank being obliged to suspend payment in specie, may be qualified at home, it has probably impressed such a suspicion upon this nation abroad, as will be neither soon obviated or presently forgotten.

That the commercial members in the senate, who are amassing fortunes directly by the war, should echo forth our commercial prosperity, is matter of no astonishment. But that the independent gentlemen in the landed interest (for

* The moderate funded debt of America being chiefly held by foreign countries, supplies them with a capital to advance their agriculture and support their commerce, and must greatly accelerate their prosperity.

placemen are not here appealed to) should not perceive the important difference between fortunes raised by the legitimate commerce of the country, and those raised out of its distresses, is more than astonishing, especially if they reflect that the public creditor will not suffer any diminution of interest upon his funded property without expecting some portion of real property in return for and in consideration of the lands being released from any part of the taxes, should the country be driven to so dreadful and ruinous an expedient. Is it not evident that, when it becomes necessary to raise the money wanted for the public service, at the rate of 7 or 8 per cent interest, the commerce of the nation no more than the estates can long sustain the weight of such expensive mortgages?

On the Appropriation of One per cent. to extinguish the Funded Capital.

Too little has been allowed by some to be the effect and operation of this measure, while others have been much too sanguine in their expectations from it.

Certainly it is a sure method of extinguishing any debt; but its operation being progressive and tardy, the benefits must be remote also. To a
people

people who have discovered so little regard to posterity as to raise so heavy an entail to provide for their past extravagance, it must be mere infatuation to look to a relief, from which but few of the present stockholders can hope to enjoy any advantage, much more to pervert it into an acquiescence in the unremitted accumulation of a debt, which by these means may, indeed, wholly exonerate posterity by becoming fatal to themselves.

The good effects to be produced by the appropriation, must depend upon an efficient revenue, and the prudence of the nation during the long interval of its operation; for if in this period new debts are created faster than the old debt is diminished, or than the country can support the burthen, the whole delusion must vanish and prove inefficient.

There is one more direct advantage which must be experienced from the appropriation, that in a time of peace the sums, the commissioners of government will be able uniformly to lay out in purchase, will take off the floating stock, and gradually advance the price of the funds, if the revenue is kept sufficient to carry it into effect.

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CONCLUSION.

The principal design of the foregoing observations is to enforce the importance of the foreign debt to the preservation of the credit and the commerce of the nation. Those who favour them with the perusal, will decide how far it is made out that the past prosperity has proceeded therefrom, and the share it may continue to have in restoring our greatness. In the new circumstances of Europe, very material consequences may follow to most countries. The prosperous, the adverse, or the peaceable consequences in which we may be involved, must greatly depend upon a popular, liberal, and wise accommodation to the times. An abundance of demonstration has attended the history of the principles and events of the present war, to convince every government that its stability must consist in having the affections of the people; and if despotic governments have found force ineffectual, it should operate as a powerful example to all, not to hazard resorting to force till reformation is fairly tried.

The monied interest who have every thing at stake which they possess, dependent upon the preservation of the constitution and the peace of the country, ought very maturely to deliberate upon
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the best means of preserving both; and if they fear the spirit for reformation is corrupted by any design to involve in it a revolution, they would most effectually preserve the country and themselves from so terrible a calamity, by mixing with the advocates of reform, and by their weight and influence check any disposition to carry a reform beyond what may be really useful to correct those abuses which have by degrees increased;—they ought to remember, that as taxation is so much increased, representation should also be extended.

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